



July 15, 2009

VIA EMAIL: eaac@calepa.ca.gov

Economic and Allocation Advisory Committee (EAAC)

California Environmental Protection Agency

1001 "I" St

Sacramento, CA 95812

Dear Chairman Goulder and EAAC Members,

Congratulations on your appointment to the Economic and Allocation Advisory Committee, and thank you for your service to our state. Our organizations have been active members throughout the AB 32 implementation process, participating in the work of the Market Advisory Committee, the development of the AB 32 Scoping Plan, and the formulation of the various regulations that make up the state's comprehensive climate effort. We are looking forward to your important contribution to AB 32, both in advising the California Air Resources Board (ARB) on its economic analysis, and in providing recommendations for the most appropriate method of distributing the value of cap-and-trade emissions allowances.

As you begin your work, we wanted to provide a brief synopsis of our collective insights on the best manner to distribute the value of allowances in the AB 32 cap-and-trade program.

Allowance value should be used to further the goals of AB 32. The primary purpose of AB 32 is to reduce greenhouse gas emissions,¹ but the bill also requires ARB to pursue other goals, including maximizing environmental, economic and public health co-benefits,² complementing efforts to reduce air pollution and toxic contaminants,³ transforming the state's energy infrastructure,⁴ protecting low-income communities,⁵ and maximizing overall societal benefits.⁶ Thus, we believe that the following purposes are the most appropriate for allowance value:

- Reduce costs to consumers, particularly low-income consumers, for example through investments in end-use efficiency beyond the state's existing programs, and possibly through direct payments;

¹ Health and Safety Code § 38501 (h)

² Id. at § 38501(h), § 38562(b)(6)

³ Id. at § 38562(b)(4)

⁴ Id. at § 38501(h)

⁵ Id. at § 38562(b)(2)

⁶ Id. at § 38562 (b)(6)

- Support investments in, and deployment of, technologies and strategies to reduce GHG emissions, such as energy efficiency, renewable energy, transit, soil carbon sequestration practices, and recycling, as well as RD&D of innovative technologies to reduce GHG emissions;
- Provide economic opportunities to low-income and disadvantaged communities, as well as small businesses, schools, affordable housing associations, and other community institutions;
- Support air and toxic pollution reduction efforts and enforcement programs, particularly in environmental justice communities;
- Support development of “green collar” jobs through training and outreach; and
- Support investments in climate change adaptation research and strategies, including local public health education and preparedness programs, and measures to safeguard the capacity of our natural resources to provide clean water, clean air, healthy soil, and healthy environments.

Auctioning is the simplest and fairest method to distribute allowance value in the public interest. Allowances are valuable permits to pollute the public atmosphere, and their value should be distributed in the public interest. The simplest and fairest way to do this is to auction the allowances and use the revenue in the manner we describe above. In their 2007 report, the Market Advisory Committee concluded that “the fundamental objectives of cost-effectiveness, fairness, and simplicity... favor a system in which California ultimately auctions all of its emission allowances.”⁷ Similarly, the AB 32 Scoping Plan adopted by the Board said that “ARB expects that California will auction significantly more than the WCI minimum levels [10 percent in 2012, 25 percent in 2020] and will transition to 100 percent auction.”⁸

Once again, we value your expertise and appreciate the input you will be providing to ARB as it seeks to implement an efficient and equitable climate program that meets our environmental and social goals. We look forward to continuing to follow and support your work, and to seeing the guidance that you will provide to ARB at the end of the year.

Sincerely,

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⁷ Market Advisory Committee, “Recommendations for Designing a Greenhouse Gas Cap and Trade Program for California,” June 30 2007, p.55, available at <http://www.energy.ca.gov/2007publications/ARB-1000-2007-007/ARB-1000-2007-007.PDF>

⁸ California Air Resources Board, “Climate Change Scoping Plan,” December 2008, p.36, available at http://www.arb.ca.gov/cc/scopingplan/document/adopted_scoping_plan.pdf

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